

Message Text

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TOSEC 314

FOLLOWING SENT ACTION AMMAN AQABA FROM SECSTATE FEB 15

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TOSEC 314

E.O. 11652: N/A

TAGS: OVIP (KISSINGER)

SUBJECT: PRESS MATERIAL

1. HERewith FULL TEXT WASHINGTON POST EDITORIAL, FRIDAY, FEBRUARY 14, HEADLINED "MR. KISSINGER'S PRICE FOR OIL" ,
2. THE UNITED STATES NOW PROPOSES AN INTERNATIONAL AGREE-MENT TO FIX A WORLDWIDE MINIMUM PRICE FOR OIL. IT IS PART OF AN ELEGANT AND INTRICATE STRATEGY INTENDED TO DRAW THE OIL-CONSUMING NATIONS TOGETHER INTO A CLOSER ALLIANCE. THE IDEA COMES, NATURALLY, FROM SECRETARY OF STATE HENRY M. KISSINGER, WHO SKETCHED IT OUT LAST WEEK IN A SPEECH ARRANGED HASTILY TO GET IT IN CIRCULATION BEFORE HIS CURRENT TRIP TO THE MIDDLE EAST. THE ADMINISTRATION FEELS ITSELF UNDER CONSIDERABLE PRESSURE TO MOVE QUICKLY.

3. AS PART OF THE RATHER SHADOWY ACCOMMODATION WITH THE FRENCH AT MARTINIQUE LAST DECEMBER, THE UNITED STATES AGREED
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TO GO ALONG WITH PRESIDENT GISCARD D'ESTAING'S CHERISHED

PLAN FOR A MEETING AMONG BOTH CONSUMING AND PRODUCING NATIONS. WHILE NO DATE HAS BEEN SET, THE FRENCH EXPECT IT TO TAKE PLACE BEFORE THE END OF MARCH. BUT THE UNITED STATES - WHICH IS TO SAY, MR. KISSINGER - HAS BEEN DECLARING FOR MONTHS THAT THERE WILL HAVE TO BE A FIRM COMMON POSITION AMONG THE INDUSTRIAL COUNTRIES BEFORE WE SIT DOWN TO DEAL WITH THE ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES. MR. KISSINGER DOES NOT WISH OPEC TO TAKE THE INI-

TIATIVE BY PLAYING ON THE CURRENT DIFFERENCES OF OPINION AMONG THE COUNTRIES THAT ARE ITS CUSTOMERS. BEFORE ANY FORMAL CONFERENCE, MR. KISSINGER WANTS TO GIVE OPEC GOOD REASON TO BE CAUTIOUS. HE WANTS IT TO BE CONFRONTED WITH SOLID EVIDENCE OF THE CONSUMING COUNTRIES' DETERMINATION TO CUT OIL IMPORTS, DEVELOP OTHER SOURCES OF ENERGY, AND STAND BY EACH OTHER IN A CRISIS WITH MONEY AND, IF NECESSARY, OIL.

4. MR. KISSINGER IS ENTIRELY RIGHT IN HIS WARNING THAT THERE IS FAR MORE AT STAKE HERE THAN MONEY, OR A MERE COMMERCIAL SCRAMBLE FOR RESOURCES. HE ACCURATELY SEES THE OIL REVOLUTION AS A FUNDAMENTAL CHALLENGE TO NATIONS THAT HAVE GOT A BIT TOO CONFIDENT AND CARELESS OF THEIR WEALTH. "THE ENTIRE INDUSTRIALIZED WORLD FACES AT THE SAME TIME A MAJOR CRISIS OF THE ECONOMY, OF THE BODY POLITIC, AND OF THE MORAL FIBER," HE SAID IN THE PRESS CLUB SPEECH. "WE AND OUR PARTNERS ARE BEING TESTED - NOT ONLY TO SHOW OUR TECHNICAL MASTERY OF THE PROBLEMS OF ENERGY, BUT EVEN MORE IMPORTANTLY TO SHOW IF WE CAN ACT WITH FORESIGHT TO REGAIN CONTROL OF OUR FUTURE." HE IS ALSO RIGHT IN SAYING THAT LEADERSHIP CAN COME ONLY FROM THE UNITED STATES.

5. OVER THE PAST YEAR, DESPITE THE DISARRAY IN AMERICAN DOMESTIC POLITICS, MR. KISSINGER HAS ACHIEVED A REMARKABLE MOMENTUM TOWARD HIS PURPOSE. THROUGHOUT LAST YEAR, DESPITE THE OPEN SPLIT WITH FRANCE, THE OTHER INDUSTRIAL NATIONS LABORIOUSLY PIECED TOGETHER AN AGREEMENT TO SHARE FUEL IN THE EVENT OF ANOTHER ARAB EMBARGO. SINCE THEN PRESIDENT FORD HAS COMMITTED HIMSELF TO A GENUINE AND UNCLASSIFIED

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SERIOUS EFFORT TO REDUCE OIL IMPORTS INTO THIS COUNTRY. IN JANUARY THE RICH NATIONS AGREED ON SECRETARY KISSINGER'S PLAN FOR A \$25 BILLION EMERGENCY FUND TO SUPPORT ANY COUNTRY WHOSE OIL DEFICITS BECOME UNMANAGEABLE. NOW MR. KISSINGER IS PUTTING FORWARD THE NEXT PIECE IN THIS STRUCTURE, THE CONCEPT OF A WORLD-WIDE FLOOR FOR OIL PRICES TO INDUCE OPEC TO BRING ITS CURRENT VERY HIGH PRICES DOWN TO A COMPROMISE LEVEL.

6. BUT WILL IT WORK? THERE IS A CURIOUS DIVISION OF OPINION HERE. THE PEOPLE WHO FOLLOW MR. KISSINGER'S DIPLOMACY CONSIDER IT AN EXTREMELY USEFUL STEP TOWARD THE CONFERENCE WITH OPEC. THE PEOPLE WHO FOLLOW THE DEVELOPMENT OF THE WORLD'S ECONOMY CONSIDER THE WHOLE IDEA VERY DANGEROUS AND, AT BEST, UNENFORCEABLE. CURIOUSLY BOTH OPINIONS MAY BE RIGHT.

7. MR. KISSINGER'S PROPOSAL CALLS FOR TWO STAGES. FIRST, EACH OF THE INDUSTRIAL COUNTRIES WOULD AGREE TO HOLD ITS

DOMESTIC PRICE FOR OIL HIGH ENOUGH TO ENCOURAGE THE DEVELOPMENT OF OTHER SOURCES OF POWER. WHILE HE HAS OFFERED NO FIGURE, IT APPEARS THAT HE IS THINKING OF FLOOR PRICE AROUND \$7.50 A BARREL FOR CRUDE OIL - COMPARED WITH AN AVERAGE U.S. PRICE TODAY OF AROUND \$9.50, AND THE PERSIAN GULF PRICE OF \$10.40. BUT IT IS VERY DIFFICULT TO THINK OF ANY COUNTRY WHERE MAJOR ENERGY PROJECTS OF ANY SORT - NUCLEAR REACTORS, NEW COAL MINES OR VERY DEEP OIL AND GAS DRILLING - ARE IN DOUBT BECAUSE OF FEARS THAT THE PRICE OF OIL WILL DROP BELOW \$7.50. OIL COMPANIES ARE BACKING OUT OF EXPERIMENTS IN EXTRACTION FROM SHALE IN THIS COUNTRY AND TAR SANDS IN CANADA ON GROUNDS OF COST, TRUE ENOUGH; BUT THERE THEY ESTIMATE THEIR BREAK-EVEN POINT IN THE RANGE OF \$15 A BARREL, FAR TOO HIGH TO BE HELPED BY MR. KISSINGER'S FLOOR.

8. THE SECOND STAGE OF MR. KISSINGER'S PLAN IS TO PROCEED FROM THIS PRICE AGREEMENT AMONG THE CONSUMING NATIONS ALONE TO THE BROADER WORLDWIDE AGREEMENT WITH OPEC. HE IS OFFERING A DEAL: IF OPEC WILL AGREE TO THE LOWER PRICE NOW, THE CONSUMING NATIONS - INCLUDING THIS ONE - WILL AGREE TO UPHOLD IT LATER EVEN WHEN AN UNCON-

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TROLLABLE ENERGY SURPLUS DEVELOPS. IT MEANS THAT THIS COUNTRY WOULD IN EFFECT JOIN OPEC AND COMMIT ITSELF TO MAINTAIN THE MONOPOLY PRICE REGARDLESS OF ANY CHEAPER ALTERNATIVES THAT MIGHT APPEAR. .

9. BUT THE CHEAPER ALTERNATIVES LIE YEARS IN THE FUTURE, AND MR. KISSINGER IS EVIDENTLY WORRYING ABOUT A MUCH MORE IMMEDIATE POSSIBILITY - THE PERIL OF AN OPEN QUARREL AMONG THE CONSUMING COUNTRIES WHEN THEY SIT DOWN WITH OPEC IN A MONTH OR SO. THE EUROPEANS AND JAPANESE ARE FULL OF FEARS THAT THE UNITED STATES WILL LEAD THEM INTO CONFRONTATION WITH OPEC. MR. KISSINGER REQUIRES A SERVICEABLE AND CREDIBLE PROPOSAL FOR AN INTERNATIONAL AGREEMENT, TO THROW SOME OF THE HARD QUESTIONS BACK TO A CARTEL THAT HAS ITS OWN INTERNAL DIVISIONS.

10. AT THE LEAST, MR. KISSINGER'S PROPOSAL SIGNALS THE
INTENTION OF THE UNITED STATES GOVERNMENT TO TAKE A DIRECT
AND ACTIVE INTEREST IN WORLD OIL PRICES. IN THAT RESPECT,
IT CONSTITUTES AN IMPROVEMENT IN THE AMERICAN POSITION.
BUT SHOULD THIS COUNTRY REALLY COMMIT ITSELF TO A FIXED
WORLDWIDE MINIMUM PRICE OF \$7.50 A BARREL FOR OIL?
CLEARLY NOT. FORTUNATELY, IT IS A DECISION THAT THE UNITED
STATES VERY PROBABLY WILL NEVER ACTUALLY HAVE TO MAKE.
OPEC SEEMSALTOGETHERLIKELY TO REPLY THAT THERE
IS ALREADY A FIXEDMINIMUM PRICE - THE OPEC PRICE,
CURRENTLY FIXED AT \$10.40 - AND IT IS CONTENT TO STICK
WITH THAT ONE. INGERSOLL
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